EMERGING MARKETS WATCH

THE GRADUATE PROGRAM IN INTERNATIONAL POLITICAL ECONOMY & DEVELOPMENT
FORDHAM UNIVERSITY

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FORDHAM | IPED

Fordham University's graduate program in International Political Economy and Development trains graduate students in the advanced interdisciplinary analysis of global economic relations and international development issues. Graduates frequently pursue professional careers in international finance and banking, international economic policy, and in international relief and development.

Emerging Markets Watch is a student-run newsletter of Fordham's IPED Program. It aims to share with prospective students and friends in the academic, non-profit, government, and corporate community IPED analysis in emerging markets and country risk analysis.

Alumni Profile: Sahra English

Sahra English shares that one of the biggest achievements in her career was earning her Master's Degree in IPED in 2008 while working full-time at MasterCard. Her training in political economy and development has been an excellent complement to her work background, and has helped her achieve her current position. Sahra currently holds the position of Vice-President of the Global Public Policy department at MasterCard where she manages business issues across emerging markets in the Middle East, Africa, Asia Pacific and Latin America. As one of the heads in the department, Sahra works closely with the US Trade Representatives (USTR) and the US Treasury on negotiating business agreements. She is also heavily involved in trade policy issues—especially on recent negotiations with TPP (Third Party Processor), TTIP (Transatlantic Trade and Investment Partnership) and TiSA (Trade in Services Agreement).

Sahra has held different positions of increasing responsibility while working for MasterCard – ranging from business development, franchise management, product development, emerging technology, and most recently public policy. Sahra had also served as the chief of staff for the Chief Product Officer and Chief Emerging Payments officer for 3 years

Sahra shares that an interesting trend in the emerging markets is the increasing regulation on electronic payments around the world. The trend has started in the United States, and is currently being adapted by the countries of the emerging markets. In this development, Sahra states that the role of her team is "to work with regulators as well as non-governmental organizations like the World Bank and the United Nations to show the value of electronic payments, and how these processes can help bridge the gap in financial inclusion."

EDITORS' NOTE: Fordham's *Summer Certificate Program in Emerging Markets and Country Risk Analysis* is an intensive 10-week program designed for international business professionals as well as current graduate students. The program offers students the opportunity to develop the political, economic, and financial analytical skills needed to evaluate the potential risks and rewards associated with the dynamic and volatile financial markets of Asia, Latin America, Africa, and Eastern Europe. Included in this newsletter are the abstracts of the papers completed during the summer of 2014.

For more information about the program, please visit iped.fordham.edu.

INVESTMENT PROSPECTS FOR EMERGING MARKETS

Russia

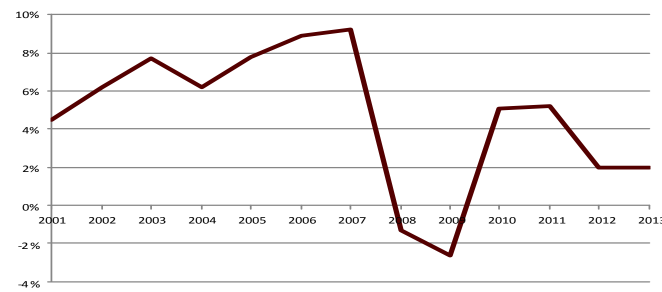
By Aleksandra Prokopeva

Portfolio investment prospects in Russia are negative due to sluggish economic growth, inflation acceleration risks, volatile exchange rate, and a battered stock market.

Economic growth in Russia had weakened from 3.4% in 2012 to 1.6% in 2013. The World Bank projects a growth of 0.8% for 2014, but this might actually be lower with economic sanctions against Russia from EU and USA. Inflation substantially accelerated from 6.2% in February to 7.6% and 7.8% in June 2014. The Central Bank of Russia (CBR) has implemented contractionary monetary policies in 2014 to restore stability in the financial sector.

Russian ruble started to depreciate after the Fed announced its plans to gradually curtail its asset purchase program in May 2013. The escalating tension in Ukraine has added pressure on the ruble as capital outflows increase. CBR had to intervene by selling foreign currency in the domestic market in order to smooth out the volatility in the exchange rate. As a result, foreign exchange reserves decreased by $27 billion in the first quarter of 2014. In recent years, the balance of payments has been positive: $8.66 billion in 2011, $10.37 billion in 2012, and$10.84 in 2013. However, in 2014, balance of payments deficit reached $21.7 billion as of the end of the first quarter.

Russia's Real GDP Growth Rate



In 2014, the stock market trades at a price-to-earnings ratio of 4.5 according to Bloomberg, compared to a global emerging market range of about 9 to 12. Recently, valuations had gotten worse due to the Ukraine crisis. In the past 5 years, the Russian stock market returned 40%, almost 3 times less than the S&P 500. The market has been more volatile than most of the emerging markets.

Mexico

By Stephen Hurley

Prospects for portfolio investment in Mexico are above normal. GDP growth over the past 5 years has been strong. Inflation is tame, and the unemployment rate is low at 4.5%. The currency has been relatively stable since the financial crisis. The Mexican stock exchange has seen modest gains over the past year, but huge gains in the long-term.

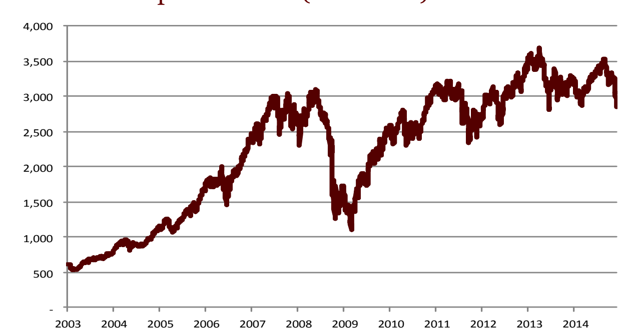
Growth in the Mexican economy has recovered well from the financial crisis of 2008 and 2009. GDP contracted by 6.9% in 2009 but GDP averaged 4.8% in the following three years. The Mexican Central Bank forecasts a return of 2.3% to 3.3% growth in the following year.

The unemployment rate, as of the fourth quarter of 2013, was 4.5%. This is down from 5.2% in Q3 of 2013, and the lowest unemployment rate since 2008. This low unemployment has partly been a reflection of the role of informal jobs in the Mexican economy. Unemployment rate can only be measured by those seeking active employment.

Exchange rate has depreciated around 25% in 2008 and 2009 against the US dollar due to the US economic downturn, and uncertainty in the global markets. The currency depreciated again by 19% in 2011, but since then, the exchange rate has been stable. The coefficient of variance over the last six months is only 1.2% and 4.2% over the past 5 years. The Mexican peso is expected to slowly depreciate. This depreciation is expected to make the country's exports more competitive against Asian countries.

Mexican composite IPC index has a large market capitalization, and is open to foreign investment. The index is up 3.7% year to date to 2014. Longer-term returns are much higher at 271% for 10 years, and 61% for the last five years, outperforming major indices such as S&P 500, FTSE 100 and Nikkei 225.

Mexican Composite Index (MEXBOL)*



*USD adjusted values

South Africa

By Deanna Salcedo

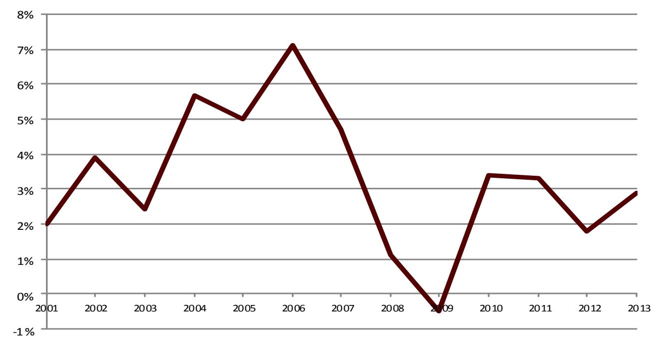
The investment outlook in South Africa is negative. South Africa has investment potential but historic imprints have created severe structural problems. Weakness in macroeconomic indicators, and a depreciating currency underscore the uncertainty of the future. Stock market growth is hindered by poor macroeconomic performance.

Real GDP growth has diminished over the past ten years from 12.0% in 2004 to a government projected 2.0% in 2014. The disappointing GDP growth in 2014 is partially attributable to the five-month strike in the platinum sector.

The South African Rand (SAR) has depreciated steadily since 2011, from R/USD rate of 6.9 to 10.5. The volatility over the last five years was high at 0.15 given the strong appreciation in 2009, and due to heavy capital inflows following the onset of the global crisis, and US quantitative easing policies. ARMA forecasting suggests that FX rate will stabilize or even appreciate. This forecast is overly optimistic as the rest of the world recovers from crisis and South Africa continues to struggle with growth. Despite the depreciation of the currency, the balance of payment has deteriorated from a $10 million deficit in 2005 to a deficit of over $40 million in 2013 as imports became more costly and export growth stagnated.

Stock market growth is being hindered by poor macroeconomic performance of the country. The exchange depends on GDP growth to bring new listing and investors into the fold and grow the market cap. The Johannesburg Stock Exchange (JSE), despite being the only exchange in South Africa, remains small with only 383 listed companies. This will only be exacerbated by the new securities regulation requiring 51% South African ownership which is expected to damn investor's appetite for the market.

South Africa's Real GDP Growth Rate



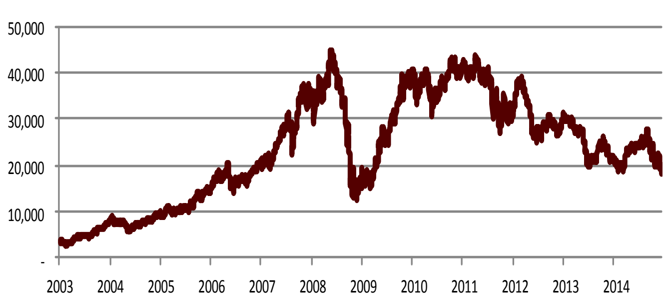
Brazil

By Alexander Bartkow

The prospects for portfolio investment in Brazil are excellent. Brazil's ample Foreign Exchange Reserves, low unemployment, resilient GDP growth, as well as an increasingly favorable exchange rate provides a robust framework for growth.

The BOVESPA rose by 22% and outperformed all developed market benchmarks such as S&P 500, FTSE 100 and Nikkei 225 by 12%, 14% and 19%, respectively, between February and July 2014. GDP has recovered since the financial crisis and averaged 3.4% from 2010 to 2013. Brazil also enjoyed a steady increase in GDP per capita from $4,400 in 2001 to $5,800 in 2013, which is a 32% increase. Consequently, unemployment decreased from 12% in 2004 to 5% in 2008.

Brazilian Composite Index (BOVESPA)



Ill-designed fiscal policy in the past has resulted to a 6.75% inflation rate. To curb inflation, Brazil's Central Bank has committed to a course of currency swap options. These swaps have provided a counterbalance to a reprehensible fiscal policy, comparable to the US Federal Reserve's Quantitative Easing Program.

Prior to 2008, the Brazilian Real strengthened from R$/US$ 3.00 in 2004 to R$/US$ 1.55 in 2008. The onset of the financial crisis in 2008 resulted into a safe haven flight to the US dollar as investors avoided risks. By December 2008, the Real had weakened to R$/US$ 2.5. The Brazilian real has been threatened by the recent Argentinian technical default which might lead to a similar bout of safe haven flight identical to the one in 2008. However, Brazil is more than capable of handling such aberration due to an increasing amounts of International Reserve. Reserves increased from $50 billion in the first quarter of 2004 to $360 million in 2014. This provides a nice cushion to weather financial maelstroms in the global market.

Faculty Notes from Dr. Shushanik Hakobyan

Dr. Shushanik Hakobyan is an assistant professor in the Department of Economics where she teaches courses in International Economics. She completed her PhD in Economics at the University of Virginia in 2011, and joined the Economics Department at Middlebury College in Vermont, prior to moving to Fordham. Dr. Hakobyan has worked as a consultant on several World Bank research projects which explore the impact of migration and remittances, and trade in services.

Dr. Hakobyan recently became Fordham University's liaison for the Committee on the Status of Women in the Economics Profession (CSWEP). CSWEP is one of the committees within the American Economics Association which serve professional women economists by promoting their careers and monitoring their progress. Dr. Hakobyan also collaborates with Professor McLaren at the University of Virginia on a series of papers examining the effect of NAFTA on US workers' labor market outcomes (employment, wages). In one of their papers, she shares that locations which had quickly lost their protection from Mexican imports, due to NAFTA, experienced significantly slower wage growth as compared to locations which

had no protection for blue-collar workers. She adds that in most protected industries which lose their protection, there is a large industry level effect. Wage growth for high school dropouts in previously protected industries fell 16 percentage points higher relative to industries which had no protection, initially. However, the effects are weaker for more educated workers.

On her impression on the IPED program, Dr Hakobyan states that she has heard excellent reviews on the program from her colleagues both from Fordham, and from other universities. "I think everyone agrees that the success of the program comes from the diverse backgrounds of its students. I very much look forward to my interaction with IPED students and mutually beneficial learning experience."

Dr. Hakobyan will be teaching *International Economic Policy*, one of the core courses of the IPED program in Spring 2015.

Global Markets Fellowships

Designed to attract highly qualified full-time students who seek careers in the analysis of international commercial and financial markets into the IPED Program, the Global Markets Fellowship consists of a tuition scholarship combined with a graduate assistantship. Eligibility criteria are: relevant professional work experience, professional proficiency in English and another language widely used in international business, and strong cross-cultural skills. Students committed to a professional career in international business and finance with a focus on emerging markets may also apply for the Emerging Markets Travel Program. The application deadline is early January for the following fall semester.

For further information, go to iped.fordham.edu and follow the link to "Financial Aid."

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